April 2019

Etihad Etisalat Co.(Mobily)

Result Flash Note Q1-19

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

Mobily improved performance, on the back of higher than expected topline, beating our estimates and market consensus. Higher than expected margins also contributed to the bottom line. Earnings of SAR 67.3mn was in stark contrast to our expected loss of SAR 133.6mn. We update our recommendation to "**Neutral**" with a revised TP of "SAR 22.0/share"

- Mobily in Q1-19 posted earnings of SAR 67.3mn, as compared to losses of SAR 93.4mn in Q1-18. Earnings showed a Q/Q decline of 16.2%, as company, in Q4-18, recorded a reversal in provisions related to government fee. Bottom-line improvement was a culmination of couple of factors i) Stronger than expected topline of SAR 3.2bn, ii) Higher margins on revised government fee, iii) rationalizing of other operating costs (SG&A), which came in-line with our estimates.
- Revenue for the company stood at SAR 3.2bn as compared to our expectation of SAR 2.9bn, showing a deviation of 9.7%. The company attributed strong revenue performance to i) rise in subscriber base and an improving subscriber mix, ii) data revenue growth, iii)FTTH and wholesale revenue growth, iv) and expansion in revenue growth from government projects. We believe the current revenue mix makes the company less susceptible to core retail downturn. In addition successful roll out of FTTH network will bode well for future revenue growth. Along with that improvement in customer mix, in terms of growth in postpaid customers, will help the company in improving its ARPU and retaining its subscriber base.
- Margins improved on all levels; gross margin stood at 57.4%, as the revised royalty fee started impacting the cost. EBITDA margins consequently also improved to 39%, higher than our expectation of 35%. Operating margins also continued to expand to 8.6%. EBITDA margins improvement came with the implementation of IFRS 16.
- The overall subscriber base for telecom sector has continued to grow, along with a higher share of postpaid subscriber. Total subscriber by end of FY18 stood at 41.3mn, depicting a jump of 2.7%Y/Y. In the same time period postpaid subscribers stood at 12.9mn, showing a 27.7%Y/Y jump. Share of postpaid subscribers improved to 31.2% in FY18 as compared to 25.1% in FY17. Mobily also seems to be benefiting from this trend, the company has pushed for new postpaid packages to attract subscribers.

Valuation: Mobily's topline has remain buoyant, on the back of ever improving data segment, along with the possible higher subscriber base. The company has been able to rationalize its cost, which is quite evident in margins on all levels. The company is also planning to launch its 5G network in FY19, which has potential to drive the data growth, especially with acquisition of 100Mhz in each of 2.6GHz and 3.5GHz,will give the company an opportunity to improve it offerings. Successful roll out of the FTTH by the company adds another layer for revenue growth. For FY19, on the back of improved margins, strong revenues, we revised our earnings estimates to SAR 254mn, with a forwards PE of 71.2x. We do not expect the company to pay dividends . Recommendation revised to " **Neutral**" with a revised TP of **SAR 22.0/share**.

Results Summary

SARmn (unless specified)	Q1-18	Q4-18	Q1-19	Change Y/Y	Change Q/Q	Deviation from AJC Estimates
Revenue	2,833	3,162	3,201	12.99%	1.23%	9.7%
Gross Profit	1,663	1,386	1,839	10.58%	32.68%	12.5%
Gross Margin	*59%*	*44%*	*57%*	-	-	
EBIT	101	267	277	174.26%	3.75%	569.8%
Net Profit	(93.4)	80.3	67.3	-172.06%	-16.19%	NM*
EPS	(0.12)	0.10	0.09	-	-	

Source: Company reports, Aljazira Capital, *Not Meaningful

Neutral

Target Price (SAR)	22.0
Upside / (Downside)*	-6.4%

Source: Tadawul *prices as of 24th of April 2019

Key Financials

SARmn (unlesss pecified)	FY17	FY18	FY19E
Revenue	11,351	11,865	13,137
Growth %	-9.7%	4.5%	10.7%
Net Profit	(708.94)	(122.67)	254.34
Growth %	NM*	NM*	NM*
EPS	(0.92)	(0.16)	0.33

Source: Company reports,Aljazira Capital,*NotMeaningful

Key Ratios

SARmn (unlesss pecified)	FY17	FY18	FY19E
GrossMargin	57.5%	55.5%	56.7%
EBITDA Margin	31.8%	38.3%	37.9%
NetMargin	-6.2%	-1.0%	1.9%
P/E	NM*	NM*	71.21
P/B	0.80	0.92	1.28
EV/EBITDA	6.94	8.76	6.13
ROE	-5.0%	-0.9%	1.8%
ROA	-1.8%	-0.3%	0.7%

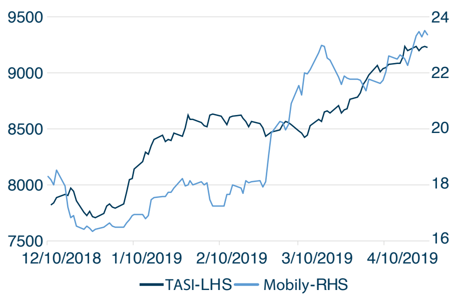
Source: Company reports,Aljazira Capital,* Not Meaningful

Key Market Data

Market Cap(mn)	18,110.0
YTD%	41.3%
Shares Outstanding(mn)	770.0
52 Week High/Low	23.92/14.82

Source: Company reports, Aljazira Capital

Price Performance



Source: Tadawul, Aljazira Capital

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RATING TERMINOLOGY

1. Overweight: This rating implies that the stock is currently trading at a discount to its 12 months price target. Stocks rated "Overweight" will typically provide an upside potential of over 10% from the current price levels over next twelve months.
2. Underweight: This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. Neutral: The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. Suspension of rating or rating on hold (SR/RH): This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.